

Completion Report

Research Summary

This study deals with the impact of foreign aid in India, in particular, the Japanese aid flowing into various activities. The last known research examining the link between public investment and consumption in India to flow Japanese aid was by Haider Ali Khan (1994). The study primarily showed that bilateral aid affects the fiscal behavior of developing country governments, in this case, India. The period covered was between 1960 and 1984. The Government of Japan has historically provided development aid and soft loans to India. Over the years, “share” of Japanese aid out of total foreign aid received by India has gone up significantly. This has primarily been a result of drying up of other sources, mainly from the US and the UK. Thus, a more recent study on the impact of Japanese aid on growth and development expenditure in India is long overdue. Secondly, the previous study looked only at India’s fiscal reactions to inflow of aid. We focus exclusively on development implications of foreign aid. We focus exclusively on development implications of foreign aid. In other words, we consider standard indicators of economic development, such as national and regional measures of poverty and inequality to capture the impact of Japanese aid in India.

We expect the *macroeconomic* impact of foreign aid to be less robust given that India is extremely diverse and that the regional effects are often more responsive to aggregate shocks owing to localized peculiarities in socio-economic conditions. However, although the macroeconomic data on foreign aid from Japan and sources is adequately reported for India, regional distribution of such flows is unavailable but for specific projects in select localities. Consequently, the regional effects of foreign aid are limited to a handful of case studies where the foreign aid has been reportedly devoted to creation and development of infrastructure, health and related matters.

But, these have direct and stronger effects on basic economic indicators at the local level.

Our empirical strategy takes the following route throughout the entire paper. We argue that at the macroeconomic level, foreign aid, in this case Japanese foreign aid affects the development and non-development expenditures incurred by the federal and local state governments of a country. The development and non-development public expenditure affects per capita income and this in turn affects income inequality measured by national and state level Gini coefficient; the poverty situation as measured by urban and rural head count ratios; poverty gap squared measuring depth and severity of poverty situation for both urban and rural incidences in India. We conduct these analyses separately for the national and the state level data available from the Planning Commission of India, MOFA-Japan, Reserve Bank of India, etc.

The study offers a number of interesting results. Among the aggregate results it shows that Japanese Foreign Aid affects “per capita” GDP of India positively and significantly. However, the percolation effect of Japanese foreign aid in India on income inequality and poverty ratios through rise in development and non-development expenditure and hence, rise in per capita income, is very little and statistically non-significant. The state level implications of Japanese foreign aid in India on the other hand, are quite strong for a number of states. It appears that the regional and localized impact of aid if instituted via specific projects offer direct benefits to a large number of people in that locality. One policy implication that may be drawn from this brief study is that ODA targeted at specific development goals is much effective in delivering the desired outcomes than a holistic centralized grant.

This is already in practice as far as Japanese ODA to India is concerned and perhaps reinforced through this empirical evidence.

Publication of the Results of Research Project:

Verbal Presentation (Date, Venue, Name of Conference, Title of Presentation, Presenter, etc.)

A seminar to be presented at the Centre for Studies in social Sciences, Calcutta at a later date.

Thesis (Name of Journal and its Date, Title and Author of Thesis, etc.)

We intend to publish this in a peer-reviewed journal, for example, Economic and Political Weekly which is very highly circulated in India and abroad.

Book (Publisher and Date of the Book, Title and Author of the Book, etc.)